Statement of Keith Collins
Chief Economist
U.S. Department of Agriculture
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Mr. Chairman and members of the Committee, I appreciate the opportunity to appear at this hearing to discuss economic issues facing the red meat industry. I will discuss production, price and profit prospects for cattle, hog and sheep producers and trends in export markets, with particular emphasis on recent developments in Asia. I will also address structural trends in the hog and cattle markets, and the issues these trends present for production, meat packing and the U.S. Department of Agriculture.

Overview of the Red Meats Sector

Based on production value, cattle is the single largest segment in U.S. farming, eclipsing such major commodities as milk and corn by wide margins. Cash receipts for U.S. production of cattle, hogs and sheep are expected to total $48 billion in 1998, about 24 percent of total U.S. farm cash receipts. Cattle and calves are expected to account for the bulk of the receipts at $37 billion, hogs are expected to account for about $11 billion, and sheep and lambs about $0.5 billion.

The competitive positions among the various livestock and poultry products have changed markedly over the past couple of decades. The current market situation for red meats reflects a variety of influences ranging from production cycles to competition from other meats, structural changes in processing and retailing, consumer preferences for food away from home, nutritional preferences and demographic characteristics. This year, the average American is expected to consume 215 pounds of meat on a retail weight basis, well above the previous record of 211 pounds set in 1994. Red meat–beef, veal, pork and lamb–is expected to account for 122.5 pounds or 57 percent of this year's consumption. The record consumption reflects increases in poultry production this year that reflect historic trends, a large increase in red meat production, and lower exports, which are boosting the domestic supplies that U.S. consumers must absorb. These and other factors have kept meat and poultry prices below the average prices of the 1990's.

The most notable long-term trend in the red meat sector has been the decline in beef consumption. Per capita consumption of beef reached its record high of 89 pounds in 1976. At the start of that year, there were 128 million head of cattle on U.S. farms. High grain prices precipitated a liquidation beginning in 1975, which continued until 1980. The next peak in cattle numbers was reached in 1982 but at a much lower 115 million head, with per capita beef consumption down to 77 pounds. The next cyclical peak occurred in 1996 at a still lower 103 million head, and by then, beef consumption had declined to 68 pounds per person.

During this period, broiler consumption soared, rising from about 40 pounds per person in 1976 to an expected 74 pounds in 1998, the highest of any country in the world. Low price, convenience, quality branded products and health concerns all contributed to the gain. Meanwhile, per capita pork consumption has changed little, although rising from a cyclical low of 45 pounds in 1976 to a cyclical high of 52 pounds expected this year. U.S. consumption of lamb is very low, an expected 1.1 pounds per person in 1998, quite stable since the mid 1970's, but paltry compared with countries such as New Zealand, where consumption exceeds 70 pounds per person per year.

Market Outlook for Red Meat

Highlights. Turning to the more immediate market situation, record red meat and poultry production, along with reduced export prospects due to Asian economic problems, have pressured livestock prices this year. During the first half of 1998, total red meat and poultry production is expected to be up about 4 percent, compared with a year ago, with pork production up about 12 percent and competing meats up about 2 percent. In the face of such burdensome supplies, hog prices sank to a 26-year low earlier this year and beef prices have been averaging below year earlier levels. For the first 5 months of 1998, the average prices received by farmers for hogs and beef cattle were down 31 and 3 percent, respectively, compared with a year earlier. From January through April, lamb prices averaged 26 percent below 1997's record high level.

Some improvement in livestock prices is expected in the coming months as the increase in supplies of red meat and poultry moderates. During 1998, cattle prices are expected to make the largest recovery, and for the year as a whole, average about the same as last year. Only a modest improvement in hog prices is expected with hog prices averaging below $40 per cwt., compared with over $50 last year. Continued improvement in cattle prices is expected in 1999, while hog prices are expected to remain steady following another, although modest, increase in pork production.

Livestock Production. Beef production is expected to be up about 1 percent during the first half of 1998. The increase reflects continued large heifer slaughter, as low prices led many producers to place heifers on feed last summer and fall rather than retain them for the breeding herd. Also, slaughter weights have been at a record high so far in 1998. Federally inspected slaughter weights in March were about 30 pounds above a year earlier.

An indication of tighter markets in the future was evidenced with the April 1 cattle on feed report. In the 7 monthly reporting States in feedlots with capacity of 1,000 head or more, cattle on feed were down 3 percent from a year earlier. This is the first year-to-year decline since October 1996. However, large numbers of heavy weight cattle continue to be placed on feed, and these placements will result in fairly large fed marketings through at least midsummer.

Beef production is expected to be down 1-2 percent in the last half of 1998 and down 5-6 percent in 1999. The large drop in beef production expected next year reflects declining cattle inventories and greater retention of heifers for herd rebuilding. Tight feeder cattle supplies, lower feed prices and improved forage conditions are likely to support continued price increases for stocker-feeder cattle and heifer retention beginning this summer.

The surge in pork production in the first quarter of 1998 was larger than projected in late 1997 due to the under-reporting of the June-August pig crop and to the sharp increase in Canadian slaughter hogs shipped into the United States, following the now-resolved labor problems in the Canadian packing industry. Pork production in the second quarter is expected to be up 12 percent compared with a year earlier, reflecting the increase in the number of market hogs and an increase in average slaughter weights.

Pork production will likely moderate by the fourth quarter of this year and through 1999. Still, compared with a year earlier, pork production is forecast to be up about 4 percent during the fourth quarter of 1998 and 2 percent in 1999, even as producers react to the low returns of recent months and production gains slow. The number of hogs kept for breeding was reported on March 1 to be 2 percent above a year ago and intended farrowings for March-August were also 2 percent higher.

Lamb production was up 2 percent during the first 5 months of 1998, compared with a year ago, reflecting strong prices in the recent past. Production is expected to be down in the last half of this year and in 1999.

<u>Farm and Retail Prices</u>. Fed cattle prices remain under pressure from large supplies of heavy cattle and burdensome supplies of competing meats. Fed cattle prices averaged in the mid-$60 per cwt. last month, up from about $62 during the first quarter and near 1997's annual average. Fed cattle prices are expected to remain near the mid-$60's through summer before increasing to the low $70's later this fall as beef supplies tighten. For all of 1998, fed cattle prices will likely remain about unchanged from 1997's $66 per cwt. Even though beef production is expected to drop sharply, record total meat supplies will hold down price gains with prices expected to average in the low- to mid-$70's in 1999.

Reflecting the prospect of tighter beef supplies to come, feeder cattle have strengthened considerably since early last year. During the first 5 months of this year, the price of 500-550 pound feeders averaged $93 per cwt., up from $84 for the first 5 months of last year. The price of 750-800 pound feeders has averaged $75 so far this year, compared with $71 last year. Stronger fed cattle prices and lower feed prices beginning this fall, combined with a shrinking supply of feeders, should further strengthen feeder cattle prices in the months ahead. The price of 750-800 pound feeders is expected to average in the mid-$80 range in 1999.

From January through May, the price farmers received for all hogs averaged $37 per cwt., down from nearly $54 last year. Continued increases in pork production are expected to lead to only slight improvement in hog prices in the coming months, with slaughter hog prices forecast to average below $40 during the last half of this year and for all of 1999. However, in May, slaughter hog prices averaged near $43 per cwt., up from the mid-$30 range in previous months. This price strength coincided with the normal Memorial day price run-up.

From January through April, farm-level lamb prices averaged $72 per cwt., down from $98 a year earlier. For all of 1998, lamb prices are expected to remain close to the average seen so far this year, the lowest since 1994, but above the $69 average of the 1990's.

Retail beef prices increased 1.7 percent in 1997 and retail pork prices rose 5.2 percent. This year, retail beef prices are expected to be nearly unchanged, while much lower farm prices for hogs are forecast to lead to a 4-6 percent drop in retail pork prices. Choice beef retail prices averaged $2.78 per pound in April, down from $2.79 last year. As beef supplies decline this fall, and in 1999, retail beef prices are likely to rise into the mid-$2.80's, near the levels of 1992, 1994 and 1995, but well below the $2.93 record set in 1993. The farm-retail beef price spread for beef in April was $1.42, about the level it averaged during 1997. Continued increases in pork supplies in 1999 could lead to a further decline in retail pork prices in 1999 of 1-2 percent. Farm-retail pork price spreads reached a record $1.80 a pound in February, but narrowed to $1.69 a pound in April.

Livestock and Meat Exports and Imports. U.S. beef exports are forecast to decline by 2-3 percent this year, as reduced sales to Pacific Rim countries and Canada offset increased sales to Mexico. U.S. beef exports to Mexico now exceed the level before the Mexican economic crisis and were up 64 percent during the first quarter. Continued economic growth and rebuilding of the Mexican cattle herd should provide additional U.S. export opportunities.

U.S. beef exports to Canada declined about 5 percent in 1997 and could decline again this year. U.S. exports were down 4 percent during the first quarter, compared with a year ago.

Canada has been going through a cattle cycle liquidation similar to our own which, with lower exports to Asia, has increased their beef supplies. In addition, a weaker Canadian dollar has made U.S. beef more expensive.

U.S. beef exports to South Korea have fallen off sharply, down by over 50 percent in the first quarter of 1998 compared with a year earlier. However, U.S. beef exports to Japan rose during the first quarter leaving total exports to Pacific Rim countries essentially unchanged. In the months ahead, U.S. beef exports to Pacific Rim countries are projected to fall, as income growth slows and these countries turn to lower-priced Australian beef, whose currency has declined relative to the U.S. dollar in recent months.

The financial crisis in Asia will likely remain a drag on beef trade through 1999, but by the latter part of the year, financial reforms could stimulate consumer confidence, improving U.S. export prospects. For all of 1999, the USDA tentatively projects U.S. beef exports will rebound from the 1998 contraction and slightly exceed the 1997 level. This forecast assumes that the Asian economies steadily improve as we move through 1998 and into 1999.

U.S. pork exports are expected to increase by 3 percent this year and 4 percent in 1999. U.S. pork exports for the first quarter of 1998 exceeded the previous-year level by more than 50 percent, rising to all major importers, except Korea. Lower U.S. prices have helped maintain fresh shipments to Japan despite unfavorable exchange rates. Exports to Canada continue above year-ago levels due to labor problems there and a push by the Canadian industry to export to Asia. Economic recovery has increased U.S. pork exports to Mexico and persistent bouts of hog cholera in the Netherlands and Spain have increased U.S. exports to Europe. Capitalizing on low prices, U.S. exports to Russia are up sharply this year.

U.S. pork exports are expected to remain very competitive, especially for lower-value cuts. Hog production expansion in Europe, Canada and Mexico, and only modest growth in Asian demand, is likely to increase competition in the higher-value cut export market.

U.S. beef imports are projected to increase by about 15 percent this year and another 5 percent in 1999. Imported and processed beef and lean cow beef are blended with fed beef trimmings to produce hamburger for the U.S. market. During the first quarter of 1998, U.S. beef imports were up 20 percent from previous-year levels, as imports from Australia, New Zealand and Canada all exceeded year-ago levels. Exports to the United States were facilitated by strengthening in the value of the U.S. dollar, reduced Asian imports, and a 12-percent decline in U.S. cow slaughter from a year earlier.

Total U.S. live cattle imports declined 5 percent in 1997 as declining imports of slaughter animals from Canada more than offset increased imports of feeder cattle from Mexico. During the first quarter of 1998, U.S. cattle imports were up 9 percent from a year earlier, with Mexico accounting for all of the increase in U.S. cattle imports. The surge in imports from Mexico reflects somewhat higher U.S. feeder cattle prices, a strong dollar relative to the Mexican peso, and dry weather there. For the remainder of 1998 and into 1999, U.S. cattle imports should stabilize at near last year's level as Canadian cattle inventories decline further and herd rebuilding continues in Mexico.

U.S. imports of hogs jumped 38 percent during the first quarter of 1998, reflecting record hog imports from Canada due to labor stoppages in Ontario and favorable exchange rates. U.S. imports of hogs are expected to slow for the balance of the year following resolution of the labor dispute.

U.S. lamb and mutton imports increased nearly 30 percent during the first quarter compared with a year ago, reflecting higher U.S. prices the past 2 years and the strong dollar relative to the currencies of Australia and New Zealand. For all of 1998, imports are expected to be 10 percent above 1997, with lower U.S. prices slowing the pace in coming months.

Producer returns. Returns to feedlot operators turned negative in August of last year and bottomed out at an estimated minus $8 per cwt. in March of this year. Since March, returns have steadily improved and are now about $2 below breakeven, as feed costs have come down. Compared to a year ago, corn prices were down 16 percent and soybean meal prices were off nearly 50 percent in May. Corn and soybean meal prices are expected to drop further over the coming months assuming no major adverse weather problems this summer. By this fall and continuing through 1999, returns to feedlot operators are expected to turn positive as beef prices strengthen and feed costs continue to drop.

Returns to cow/calf operators were about breakeven in 1997. In 1998, feeder cattle prices have improved and additional improvement is expected in the months ahead as feed prices continue to decline and beef supplies tighten. Stronger feeder cattle prices should keep returns to cow/calf operators above breakeven in 1998 and 1999.

Returns to hog farrow-to-finish operators fell below breakeven late last year. Up until this past month, operators were losing an estimated $10 per cwt. In May, hog prices increased sharply causing returns to increase to breakeven levels. For the remainder of this year, record supplies of red meat and poultry are expected to push hog prices below breakeven levels.

A Key Challenge: Addressing Low Livestock Prices

USDA has used its limited authority to help strengthen livestock returns over the past several months. These actions include expanded purchases of beef, pork, and lamb and increased allocation of GSM-102 credit guarantees to facilitate the purchase of livestock products. Earlier this year, the Department also announced the purchase of up to $30 million of pork products, up to $30 million of beef products, and up to $8 million of lamb products to support prices to livestock producers. These purchases are in addition to the expected purchases made by the Department under Section 32 of the Act of August 24, 1935, which may be used to acquire surplus commodities for distribution to the National School Lunch Program and other domestic food assistance programs.

To maintain U.S. agricultural exports to Korea following the Asian currency crisis, the Department offered GSM credit guarantees in connection with exports of red meat, hides, and other U.S. farm commodities to Korea. The Department also reviewed the existing allocation of GSM credit guarantees, and based on that review, added meat to several GSM-102 country allocations. In February, the Secretary sent a trade mission to several East Asian countries to promote high-value exports, including meat to the hotel and restaurant industries.

Many other activities of USDA affect market opportunities and returns for producers. The following sections discuss efforts to open foreign markets, improve U.S. production and pastures, ensure competitiveness, and provide disaster assistance.

A Key Challenge: Maintaining Long-term Trends in Beef and Pork Exports

Increases in global income and the advent of a more liberalized trading environment have contributed to substantial growth in international beef and pork trade over the past 15 years, making exports an important factor in providing support to cattle and hog prices. Beef and pork exports were equal to less than 1 percent of total U.S. production 15 years ago; they now equal about 9 percent and 7 percent, respectively. U.S. beef exports account for about 20 percent of world beef trade, second only to Australia’s 23-percent share. The United States is the world’s largest beef importer. However, with the growth in higher-value beef exports, the United States has been a net exporter of beef in value terms since the early 1990's. The United States is projected to become a net beef exporter (volume terms) by the middle of the next decade.

U.S. pork exports account for almost one-quarter of the world pork trade, second only to the EU. U.S. pork imports have fallen from almost 7 percent of production in 1985 to a projected 3 percent in 1999. The United States has been a net pork exporter (in volume) since 1995.

The majority of the long-term growth in U.S. beef and pork exports can be tied to trade liberalizing agreements. Well-positioned as a producer of disease-free beef and pork, the United States has been able to capitalize on market liberalization in the 1980's and 1990's. The Japan-U.S. Beef-Citrus Agreement of 1988, the U.S.-Canada and North American Free Trade Agreements, and the Uruguay Round Agreements have helped to open substantial new marketing opportunities for U.S. beef and pork exports. Trade with these countries--Canada, Mexico, and Japan-- represented 77 percent of U.S. beef exports and 65 percent of U.S. pork exports in 1997. These trade gains, coupled with an expected recovery and market expansion in Korea, are expected to continue boosting U.S. beef exports to about 12 percent and pork exports to about 9 percent of production by 2005.

Certain trade barriers—sanitary, quality, technological, and cultural—combined with changing production, marketing, and political conditions are playing an important role in the evolution of red meat markets, and will continue to do so as meat trade expands through the next decade. Health and sanitary regulations predicated on fear of spreading virulent cattle and hog diseases, such as brucellosis, swine fever, and foot-and-mouth disease, have limited the marketing opportunities of surplus producing regions. Many countries will not accept live animals or fresh, chilled, or frozen meat from regions where cattle and hog diseases are endemic. Progress in this area was made in March when the European Union (EU) farm ministers agreed to implement the EU-US equivalency agreement facilitating trade in live animals and animal products. We expect the equivalency agreement to create new opportunities for U.S. meat in the EU.

In 1996, the bovine spongiform encephalopathy (BSE) situation in the EU contributed to a slowdown in the growth of global meat consumption and trade. The lingering effects of food safety concerns began to dissipate in 1997, and the outlook for both beef consumption and trade began to improve in the latter part of 1997. But then, during the last quarter of 1997, Asian beef imports began to slow as reports of E. coli 0157:H7 and listeria contamination in other Asian markets raised concerns about food safety in the beef supply. An outbreak of foot-and-mouth disease in Taiwan in 1997 shut that country, one of the largest pork exporters, out of the global export market. Classical swine fever (CSF) has disrupted the pork markets in the European Union.

As a result of the Uruguay Round Agreements, particularly the SPS Agreement, the United States scored a major victory in challenging the EU hormone ban on imported meat. The WTO just ruled that the EU must bring its regulations into compliance with the dispute settlement rulings by May 13, 1999. This case was the first test of the WTO SPS provisions and demonstrates that the new rules can be used to address contentious trade barriers.

Another part of the WTO SPS agreement -- the concept of regionalization -- is also likely to affect meat trade. Under the concept of regionalization, disease- and pest-free areas are no longer defined simply by national boundaries but by appropriate geographic and climatic conditions. We have already put this requirement into practice by our acceptance of beef from Argentina and pork from the State of Sonora in Mexico. We are working closely with Canadian officials to put into place programs that provide access for U.S. feeder cattle and hogs from certain U.S. disease-free regions.

The Department, working in concert with Office of the United States Trade Representative (USTR) and other agencies, must make every effort to eliminate trade barriers that are not based on sound science. In May, the Secretary established a senior group to address sanitary and phytosanitary (SPS) agricultural trade issues. This group, which is composed of representatives from USTR, USDA, the Food and Drug Administration, the Environmental Protection Agency and the Department of State, will coordinate broad policy on foreign SPS measures that are inconsistent with the WTO SPS Agreement and have substantial policy and trade implications for U.S. agricultural exports.

A Key Challenge: Responding to Changes in Market Structure

Changes in technology, the push for increased income and other factors have led to substantial changes in the structure of U.S. livestock production, with fewer farms producing more product. The trend toward fewer and larger U.S. farms during the past three decades was most dramatic in the livestock sector, particularly among hog and dairy operations, which have declined in number by over 70 percent. Cattle feeding operations declined 40 percent.

The number of farm operations with cattle totaled 1,167,910 during 1997, down 2 percent from 1996 and 4 percent below 1995. Beef cow operations in 1997 were down 2 percent from 1996 and 3 percent below 1995. The pace of concentration of feeder cattle production has remained well below that of other livestock sectors, as production has remained spread throughout much of the country. The top 10 percent of counties had 34 percent of the total beef cow inventory in 1992, and 32 percent in 1969.

On the other hand, fed cattle has become of the more highly concentrated livestock sectors, although the location of the industry remained relatively stable in recent decades. About 2 percent of U.S. feedlots market 85 percent of fed cattle marketed. Some fed cattle production moved from the Corn Belt into larger feedlots of the Plains, but these areas were already highly concentrated in cattle feeding. Nearly all U.S. counties experiencing significant change since the 1970s are in the major producing areas of the Central and Southern Plains. Outside this area, structural change is significant in only a few counties, mainly in Western States.

The number of operations with hogs totaled 138,690 during 1997, down 11 percent from a year earlier and 24 percent below 1995. Places with 2,000 or more hogs accounted for 4 percent of the operations and 55 percent of the inventory. The number of operations with over 5,000 head of inventory accounted for 35 percent of the total inventory. The total number of hogs under contract, owned by the over-5,000 head operations, but raised by contractees, accounted for 25 percent of the total U.S. hog inventory.

Growth in the hog industry has been substantial in nontraditional areas despite the disadvantage of lower feed supplies and higher feed prices than in traditional areas. About 10 percent of U.S. counties have accounted for most of the structural change. These counties accounted for less than a third of total hog and pig sales in 1969, but more than half in 1992. Counties of greatest structural change are concentrated in southern States, primarily in North Carolina and Arkansas, but are also located in isolated areas of western States and Pennsylvania.

Economic incentives for continued structural change in livestock production appear to be significant. Growth in nontraditional areas is likely tied to technological advances and production arrangements that offset the disadvantages associated with deficit feed production. Growth of livestock production in traditional production regions where more feed is grown is more likely to depend on upgrading and replacing the existing capital stock to reflect modern industry standards. Changing structure has placed pressure on many producers to innovate and improve efficiencies or lose competitiveness. This challenge involves meeting environmental standards, applying new technology, improving product quality, managing market risk in input and output markets, and meeting customer needs. This is a special challenge for the beef industry where most cattle are not sold on the basis of carcass merit and price signals for quality are not well communicated to producers.

A Key Challenge: Addressing the Issue of Meat Packer Concentration

An issue of much concern among livestock producers and to the USDA is the issue of competitive pricing in the highly concentrated markets for slaughter animals. The share of total commercial slaughter accounted for by the four largest slaughter firms is highest for steer and heifer slaughter, and was 80 percent in 1997. The concentration ratio has declined marginally after rising sharply from 36 percent in 1980 to 82 percent in 1993. The four-firm concentration ratio for all cattle slaughter in 1997 was 68 percent, about stable since 1993. The ratio for hog slaughter was 54 percent in 1997, which appears to be on an uptrend, and for sheep and lamb slaughter, the ratio is 70 percent, declining slightly the past few years.

In markets where the concentration ratio is high, slaughter firms may have the ability to obtain a farm price that may differ from the price that would prevail in a free and competitive market. One mechanism that has received attention in cattle markets and troubled some producers is “captive supply.” USDA defines captive supplies as cattle obtained by packers through forward contracts and marketing agreements and cattle that are packer-owned or fed. Captive supplies accounted for about 22 percent of steer and heifer procurement in 1996. While up a little in recent years, the 1996 figure is about the same as the late 1980's.

A producer concern voiced regarding captive supplies is that as more cattle are procured through captive supply arrangements, the thinner cash or spot markets may make it more difficult for a producer to find a spot buyer. Moreover, the spot price may be influenced by the supply of cattle being delivered under contract, which may be under the control of the packer. On the other hand, captive supply arrangements are voluntary agreements common to other industries to manage risk on the part of both the buyer and the seller. These methods ensure a market for the seller and provide the buyer optimal delivery of cattle to use packing capacity to maximize production efficiency.

The concern over the potential effects on competition in concentrated markets led Secretary Glickman to appoint a USDA Advisory Committee on Agricultural Concentration. In response to the Committee’s report and USDA’s ongoing concerns to ensure competition prevails in livestock slaughter markets, USDA has taken a series of actions to address concentration. Some of the major activities follow.

Market information. Ensuring fair and competitive markets requires that both sides to a sale have adequate information on supply, demand and price conditions. USDA has reviewed our market information program and expanded reporting in a number of areas. For example, since 1996, we have expanded coverage of boxed beef sale commitments; initiated a weekly report of premiums and discounts being offered by packers; started reporting beef grading results on a regional basis; started reporting the number of hogs produced under contract; started reporting weekly the number of cattle produced under contract for future delivery and reporting the basis difference from a futures price, if part of the contract; started reporting daily live cattle, hog and sheep crossings from Canada and Mexico; expanded the Missouri hog price reporting project to other states; started a new weekly report on meat imports; and announced intention to propose a rule to require mandatory reporting of export sales of meat by volume and destination.

We continue to review our market information program and will make changes when needed. Price discovery is perhaps the single most important piece of information. Recently, Secretary Glickman indicated his desire to have authority to require that livestock price information be reported to USDA, as called for by S. 16, The Cattle Industry Improvement Act of 1997. The Secretary has also requested that price information developed in investigations conducted by the Grain Inspection Packers and Stockyards Administration (GIPSA) be used to check the quality of the price information reported through market news. If granted, we anticipate exercising mandatory reporting with great prudence. We believe voluntary reporting is the backbone of our market news program, and USDA would compel reporting only in cases where current data are inaccurate due to incomplete reporting, and such data are essential for market efficiency and equity.

USDA has also announced plans to issue an Advance Notice of Proposed Rulemaking that would make purchasing or selling livestock, with the condition that the price not be reported, a violation of the Packers and Stockyards Act.

Providing more and better market information may not be enough for all livestock producers. USDA funds extension programs targeted at helping livestock producers use information to become better managers of their enterprises. The Risk Management Agency (RMA) is also now in the process of awarding nearly $3 million in grants to improve the tools and education programs in the area of risk management. RMA is also about to initiate its first options pilot program for livestock or livestock products. The soon-to-be-implemented Dairy Options Pilot Program will facilitate the purchase of put options for fluid milk, and if successful, may be considered for other livestock or livestock products.

Enforcement. USDA has announced a restructuring of GIPSA to strengthen enforcement against anticompetitive practices and improve the ability of the agency to enforce other provisions of the Packers and Stockyards Act. In particular, the 11 Packers and Stockyards field offices are being consolidated into 3 regional offices. While each office will deal with trade practice and financial protection issues in its respective region, each will also specialize in competition and industry issues nationwide for certain species. The Colorado office will handle cattle and sheep; the Iowa office will handle hogs; and the Georgia office will handle poultry. The one-time cost of $3 million for completing the restructuring is included in the USDA's FY 1999 budget request and is critical to strengthening enforcement against anticompetitive practices.

The new structure of GIPSA holds promise to look in depth at issues the agency has examined in limited ways up to now. The agency is building investigative teams with legal, economic and statistical expertise that will enable conducting difficult market structure, practice and performance studies. For example, some livestock producers have strongly held views that concentration alone means less-than-competitive prices, while other producers believe concentration in combination with captive supplies means less-than-competitive prices. It takes very sophisticated analysis to establish whether a market structure or marketing practice is associated with less-than -competitive prices, and even more sophisticated analyses to determine if they are the cause.

A Key Challenge: Assisting During Disasters

While crop producers have yield and revenue insurance or protection for crop losses under the Noninsured Assistance Program (NAP), livestock producers do not have livestock insurance, and USDA does not have the authority to offer livestock insurance. Moreover, the 1996 farm bill suspended livestock feed assistance programs. USDA has funded several livestock disaster programs since 1996 using funds obtained from the sale of grain stocks held in the feed grain disaster reserve. The programs were conducted under the authority contained in section 813 of the Agricultural Act of 1970. The funds and remaining stocks are essentially exhausted, terminating funding for emergency livestock feed assistance programs.

Many livestock producers have available assistance through crop insurance and forage and grazing loss protection through NAP. Producers need to know that the provisions of the 1996 farm bill suspending emergency livestock feed assistance are in effect, and they should protect themselves against feed and production risks to the extent they can.

Conclusion

The current market for red meat livestock has been weak from the producer perspective. Prices in 1997 and thus far in 1998 have been below the average of the 1990's and net returns have been negative or breakeven at best. Liquidation of cattle, large pork supplies in response to high hog prices a couple of years ago, and the first decline in U.S. meat exports in the 1990's last year have led to very large U.S. meat supplies. The continuing shrinkage of the U.S. cattle herd, cutbacks in hog production, lower feed costs, and eventual recovery in Asian demand suggest the farm economics in the red meat sector will improve as we move through 1998 and 1999.

Structural change will continue as operations decline in number and grow in size. Producers can remain competitive only by meeting consumers' quality needs and by continually increasing their productivity and lowering their costs, a never ending process. Market development is a key challenge, especially for cattle where their long term share has been eroding. The poultry and hog industries have been able to improve market share or capture added value with consistent, high-quality, often branded retail products. Consolidation has been accompanied by vertical integration, which has helped communicate consumer choice through the production and marketing system. The diversity of the cattle industry and reliance on certain marketing institutions have limited value-based marketing. More and more, cattle producers are creatively findings ways to link with one another, processors and retail markets to produce high-quality beef products and get paid for that quality. More retail products that respond to consumer desire for quality, nutritional demands and preparation convenience will also help promote market growth and enable processors to pay more for cattle.

USDA must facilitate industry profitability by ensuring open, fair and competitive markets; helping solve the problem of a safety net for disaster or other misfortunes; promoting demand, especially by securing access to foreign markets; assisting in the development of cooperatives, alliances, and other helpful market institutions that add value for producers; conducting research that helps overcome production and marketing barriers; and providing information and analysis on market developments.

That completes my testimony. I will be happy to respond to questions.

FOUR-FIRM CONCENTRATION IN MEAT PACKING

REPORTING YEARS 1980 - 1997

Percent of total commercial slaughter

Year	Cattle[1]	Steers & Heifers	Cows & Bulls	Hogs	Sheep & Lambs
1980	28	36	10	34	56
1981	31	40	10	33	53
1982	32	41	9	36	44
1983	36	47	10	29	44
1984	37	50	11	35	9
1985	39	50	17	32	51
1986	42	55	18	33	54
1987	54	67	20	37	75
1988	57	70	18	34	77
1989	57	70	18	34	74
1990	59	72	20	40	70
1991	61	75	21	43	72
1992	64	79	24	44	71
1993	68	82	25	43	73
1994	68	82	25	43	75
1995	69	81	26	46	72
1996	67	80	27	56	73
1997	68	80	28	54	70

Source: GIPSA

[1] Includes Steers, heifers, cows, and bulls

Note: All figures for years 1980 through 1990 are based on firms' fiscal years as reported to GIPSA. Figures for 1991 through 1997 are based on calendar year Federally-inspected slaughter.

U.S BEEF SUPPLY AND UTILIZATION

	1996	1997	1998 Forecast	1999 Forecast	% Change 1998 to 1999
	(Million Head)				
Cattle Inventory (year end)	101.5	99.5	97.7	98.7	+1
	(Million Pounds)				
Imports	2,073	2,343	2,675	2,800	+5
Production	25,525	25,490	25,396	23,931	-6
Domestic Use	25,863	25,609	26,101	24,576	-6
Exports	1,877	2,136	2,085	2,155	+3
Ending Stocks	377	465	350	350	--
	(Dollars per hundredweight)				
Choice Steers, Nebraska	65.06	66.32	65-68	70-76	+10
Feeder Steers, Okla. City	61.08	76.19	77-80	82-88	+8

U.S PORK SUPPLY AND UTILIZATION

	1996	1997	1998 Forecast	1999 Forecast	% Change 1998 to 1999
	(Million Head)				
Total Hog Slaughter	92.4	92.0	100.3	102.3	+2
	(Million Pounds)				
Imports	618	633	600	570	-5
Production	17,117	17,274	18,917	19,380	+2
Domestic Use	16,795	16,821	18,380	18,810	+2
Exports	970	1,044	1,075	1,120	+4
Ending Stocks	366	408	470	490	+4
	(Dollars per hundredweight)				
Iowa/S. Minn. No. 1-3	53.39	51.36	36-38	36-39	–